

STATEMENT OF BASIS
Contango Operators, Inc.
State Lease 19266 Well No. 3
LPDES Permit No. LA0124508
AI No. 158029

To Issue a LPDES Water Discharge Permit in the Offshore Subcategory of the Oil and Gas Extraction Point Source Category

THE PERMITTEES ARE: Contango Operators, Inc. - State Lease 19266 Well No. 3 involved with the exploration, development, and production of oil and gas within territorial seas locations of the State of Louisiana.

ISSUING OFFICE: Louisiana Department of Environmental Quality (LDEQ)
Office of Environmental Services
Post Office Box 4313
Baton Rouge, Louisiana 70821-4313

PREPARED BY: Gene Jarreau

DATE PREPARED: March 10, 2009

1. PERMIT STATUS

- A. Reason For Permit Action:
To issue a Louisiana Pollutant Discharge Elimination System (LPDES) permit for a 5-year term.
- B. NPDES permit effective date: N/A
NPDES permit expiration date: N/A
EPA has not retained enforcement authority.
- C. LPDES permit: N/A
LPDES permit effective date: N/A
LPDES permit expiration date: N/A
- D. Date Application Received: May 20, 2008

2. FACILITY INFORMATION

- A. FACILITY TYPE/ACTIVITY - Oil and Gas Exploration, Development, and Production Operations

Contango Operators, Inc. - State Lease 19266 Well No. 3 is an oil and gas exploration, development, and production facility.

- B. FEE RATE

- 1. Fee Rating Facility Type: minor
- 2. Complexity Type: III, BPJ from 20 points to 10 points to be closer to the fee for coverage under the general permit, LAG260000
- 3. Wastewater Type: III
- 4. SIC Code: 1311

- C. LOCATIONS - State Lease 19266 Well No. 3, Eugene Island Block 10 Field, approximately 31 miles southwest of Franklin, Iberia Parish

Contango Operators, Inc.
Draft Permit No. LA0124508
AI No. 158029
Page 2 of 5

Latitude: 29° 23' 46" Longitude: 91° 46' 37"

3. OUTFALL INFORMATION

See Appendix A.

4. RECEIVING WATER

Stream – Gulf of Mexico

Basin and Subsegment – Atchafalaya River, 010901

Designated Uses -

- a. primary contact recreation
- b. secondary contact recreation
- c. fish and wildlife propagation
- d. oyster propagation

5. PROPOSED EFFLUENT LIMITS

See Appendix A.

6. COMPLIANCE HISTORY/COMMENTS

A file review disclosed that only one action has been issued to Contango Operators, Inc. - State Lease 19266 Well No. 3. Administrative Order Enforcement Tracking No. WE-AO-08-0384, Alt. ID No. LAU005939 (issued May 30, 2008) is still in effect.

A DMR review disclosed the following issues regarding monitoring have been found. In the first semi-annual monitoring period of 2008, the monthly average and the daily maximum for BOD were 46 mg/L (both limits are 45 mg/L), and the monthly average and the daily maximum for TSS were 119 mg/L (both limits are 45 mg/L) for Sanitary Waste (Outfall 003). The General LPDES Permit Non-Compliance Report Form stated: the cause of violations as the (Omni-Pure) unit was not designed for the Gulf of Mexico (state waters); the steps taken to reduce or eliminate the non-compliance as the unit will be monitored very close with increased maintenance; the corrective action taken to prevent recurrence of the non-compliance as the unit was completely cleaned and flushed (including all lines), the unit was restarted with fresh water and the system was fine tuned, and the rig was advised to install a brinier system to the (Omni-Pure) unit (which will help dilute the wastewater and boost the oxygen level).

Please be aware that the Department has the authority to reduce monitoring frequencies when a permittee demonstrated two or more consecutive years of permit compliance. Monitoring frequencies established in LPDES permits are based on a number of factors, including but not limited to, the size of the discharge, the type of wastewater being discharged, the specific operations at the facility, past compliance history, similar facilities, and best professional judgment of the reviewer. We encourage and invite each permittee to institute positive measures to ensure continued compliance with the LPDES permit, thereby qualifying for reduced monitoring frequencies upon permit reissuance. If the Department can be of any assistance in this area, please do not hesitate to contact us. As a reminder, the

Contango Operators, Inc.
Draft Permit No. LA0124508
AI No. 158029
Page 3 of 5

Department will also consider an increase in monitoring frequency upon permit reissuance when the permittee demonstrates continued non-compliance.

7. 303(d)/TMDL WATERBODIES

Subsegment 010901, Atchafalaya Bay and Delta and Gulf Waters to the State 3 mile limit, is listed on LDEQ's Final 2006 303(d) list as impaired for fecal coliform colonies. A TMDL is due to be established by March 31, 2009. A reopener clause will be established in the permit to allow for the requirement of more stringent effluent limitations and requirements as imposed by a future TMDL. Until completion of TMDLs for the Atchafalaya River Basin, those suspected causes for impairment which are not directly attributed to the oil and gas extraction point source category have been eliminated in the formulation of effluent limitations and other requirements of this permit. Additionally, suspected causes of impairment which could be attributed to pollutants which were not determined to be discharged at a level which would cause, have the reasonable potential to cause or contribute to an excursion above any present state water quality standard were also eliminated. For fecal coliform colonies, the volume of sanitary waste discharges from these facilities are small and should not have a significant impact on the receiving stream. Discharges in compliance with standard sanitary effluent limitations, which includes a fecal coliform limit (if chlorination is not chosen as a disinfection method) set at the standard end-of-pipe, should not cause or further contribute to the fecal impairment on the receiving stream.

Subsegment 010901 was previously listed as impaired for mercury on past 303(d) lists, for which the below TMDL has been developed. The Department of Environmental Quality reserves the right to impose more stringent discharge limitations and/or additional restrictions in the future to maintain the water quality integrity and the designated uses of the receiving water bodies based upon additional TMDLs and/or water quality studies. The LDEQ also reserves the right to modify or revoke and reissue this permit based upon any changes to established TMDLs for this discharge, or to accommodate for pollutant trading provisions in approved TMDL watersheds as necessary to achieve compliance with water quality standards.

The following TMDL has been established for subsegment 010901:

TMDLs for Mercury in Fish Tissue for Coastal Bays and Gulf Waters of Louisiana - July 8, 2005

All currently effective Louisiana Mercury TMDLs state that while there are many potential sources of mercury to waters of the State of Louisiana, over 99% of the pollutant load comes from the atmospheric deposition of mercury from global and local sources. There is no current data available that indicates mercury would be expected in discharges from oil and gas operations. It is noted that spent drilling muds from oil and gas wells do possess the reasonable potential to contain mercury (which would result in the introduction of mercury to the environment). However, LDEQ has prohibited the discharge of spent drilling muds into waters of the State of Louisiana. Since LDEQ has taken steps to prevent the discharge of mercury at levels at or above water quality standards from oil and gas facilities, and given that current Louisiana Mercury TMDLs do not indicate mercury is discharged from the operation of oil and gas facilities, mercury requirements will not be placed in this permit.

8. ENDANGERED SPECIES

The receiving waterbody, Subsegment 010901 of the Atchafalaya River Basin is not listed in Section II.2 of the Implementation Strategy as requiring consultation with the U.S. Fish and Wildlife Service (FWS). This strategy was submitted with a letter dated November 17, 2008 from Rieck (FWS) to Nolan

Contango Operators, Inc.
Draft Permit No. LA0124508
AI No. 158029
Page 4 of 5

(LDEQ). Therefore, in accordance with the Memorandum of Understanding between the LDEQ and the FWS, no further informal (Section 7, Endangered Species Act) consultation is required. It was determined that the issuance of the LPDES permit is not likely to have an adverse effect on any endangered or candidate species or the critical habitat. The effluent limitations established in the permit ensure protection of aquatic life and maintenance of the receiving water as aquatic habitat.

9. HISTORIC SITES

The LDEQ shall notify the LSHPO of the receipt of individual permit applications for proposed facilities when associated oil or gas related activities are to be planned on inland wetlands areas.

10. TENTATIVE DETERMINATION

On the basis of preliminary staff review, the Department of Environmental Quality has made a tentative determination to issue a permit for discharges described in the proposed effluent attachment.

11. PUBLIC NOTICES

Upon publication of the public notice, a public comment period shall begin on the date of publication and last for at least 30 days thereafter. During this period, any interested persons may submit written comments on the proposed issuance of LPDES individual permits and may request a public hearing to clarify issues involved. This Office's address is on the first page of the statement of basis. A request for a public hearing shall be in writing and shall state the nature of the issues proposed to be raised in the hearing.

Public notice published in:

The local newspaper of general circulation and

The Office of Environmental Services Public Notice Mailing List.

Contango Operators, Inc.
Draft Permit No. LA0124508
AI No. 158029
Page 5 of 5

Rationale for Contango Operators, Inc., State Lease 19266 Well No. 3

Outfall locations will vary from site to site. See Appendix A for pollutant type, limitations and monitoring frequencies.

Limits Justification and References

Limits are based upon 40 CFR 435 Subpart A - Offshore Subcategory, Final NPDES General Permit for the Territorial Waters of Louisiana (LAG260000), Louisiana Water Discharge Permit System individual permits, and Best Professional Judgment.

Storm Water Pollution Prevention Plan (SWP3) Requirement

In accordance with LAC 33:IX.2511.C.1.c, the operator must prepare and implement a Storm Water Pollution Prevention Plan (SWPPP) if there has been a release of reportable quantity of oil or hazardous substances in stormwater at this facility since November 16, 1987. A Reportable Quantity spill of oil is defined at 40 CFR 110.3 as discharges of oil that "cause a film or sheen upon or discoloration of the surface of the water". A reportable quantity of a hazardous substance is defined at 40 CFR 117.21 and 40 CFR 302.6 as any person in charge of a vessel or an onshore or an offshore facility shall, as soon as he has knowledge of any discharge of a designated hazardous substance from such vessel or facility in quantities equal to or exceeding in any 24-hour period the reportable quantity determined by this part, immediately notify the appropriate agency.

The SWP3 shall be prepared, implemented, and maintained within 60 calendar days of the effective date of this permit if a discharge of a reportable quantity of oil or a hazardous substance has occurred on or before this date, or within 60 calendar days after the first knowledge of a discharge of a reportable quantity of oil or a hazardous substance. The plan should identify potential sources of storm water pollution and ensure the implementation of practices to prevent and reduce pollutants in storm water discharges associated with industrial activity at the facility (see STORMWATER DISCHARGES in Part II of the Draft Permit).